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Home Vacancy Rates Post Sharp Increases

By Matt Phillips
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Cities and counties with some of the worst fallout from the nation's housing slump also are seeing a sharp upswing in vacant homes, a trend economists say might set up further declines in home prices.

The national homeowner vacancy rate, which gauges the number of vacant homes on the market, rose to 2.8% in the fourth quarter, according to Census Bureau data. That was up from 2.7% in the previous quarter and matched the record set in the first quarter of last year.

Vacancy rates in the 75 largest metropolitan areas showed vast differences last year, ranging from a low of 0.1% in the Poughkeepsie, N.Y., area to a high of 7.4% in Orlando, Fla., Census Bureau data show.

"The higher the vacancy rate, the greater is the degree of stress on pricing," said Jim Diffley, managing director of regional services at economic-research firm Global Insight in Waltham, Mass. "It's a measure of how far the market is out of whack."

The Census Bureau's report also showed that when compared with 2005, some of the fastest-rising vacancy rates last year were in struggling Rust Belt cities and recently sizzling Sun Belt markets, with cities in Florida -- the epicenter of the housing bust -- showing the biggest jumps in the gauge of vacant homes.

The vacancy rate in the Tampa-St. Petersburg-Clearwater area rose to 5.1% last year from 1.8% in 2005. The rate in the Miami-Ft. Lauderdale area jumped to 4.4% last year from 2.3% in 2005.

Mitchell Glasser, manager of housing and community development for Orange County, Fla., which includes Orlando, said the abrupt slowdown in home sales reduced demand even as builders were adding to supply.

"You had a booming real-estate market, and then it just stopped," he said, adding that a glut of condominiums is probably a part of the problem.

Vacancies also jumped in some once-booming Western cities. Between 2005 and 2007, homeowner vacancies more than tripled to 3.8% from 1.2% in the Riverside-San Bernardino area, part of California's Inland Empire, east of Los Angeles. In the Sacramento area, vacancies jumped to 4.2% from 1.2%. And in the Phoenix-Mesa-Scottsdale, Ariz., area, vacancy rates soared to 3.7% from 1%.

Economists caution that the fundamentals of local economies can make for very different levels of average homeowner vacancy. For example, a glance at historical homeowner vacancy data from California's San Bernardino-Riverside region shows that during the past 20 years, local homeowner vacancy rates have regularly hovered above national numbers before they last dipped below them around 2003. Other metropolitan zones, such as Atlanta; Fort Lauderdale and Jacksonville, Fla.; and Indianapolis, Ind.; also regularly have had vacancy rates that top national levels.

But outside of Indianapolis, vacancy rates in other Midwest cities have been creeping up lately. Census numbers show that in 2007, areas in and around the Ohio cities of Cleveland and Akron had some of the highest homeowner vacancy rates in the country. They both came in at 4.5% last year. And Indianapolis, Detroit, and Cincinnati, Ohio/Middletown, Ohio., also all showed rates at 4% or more.

Susan O'Neal, president of the Akron Area Board of Realtors, said she is surprised by the Census Bureau figures on rising vacancy rates there. She said, however, that significant foreclosures in the area would likely play a role in the jump. Also, the general slowdown of the local market would have an effect as houses sit on the market longer. "They're not selling as quickly because of the cycle that we're in," she said.

Vacancy rates alone, of course, aren't the only gauge that economists are watching when trying to weigh future price trends. They note that other important measures, such as employment and population growth, also play a role. In that light, they say higher vacancy rates in areas with struggling economies and slumping populations could present more persistent problems than in cities with growing economies.

"I'd be more worried as an owner and investor in Michigan," said Joseph Gyourko, a professor of real estate and finance at the University of Pennsylvania's Wharton School. "Why? Because they don't have strong population growth. Florida does. So Florida is going to grow out of its excess supply. And even though it looks worse now, I would suspect that, long run, it's better off."

